Office of Thrift Supervision
Financial Reporting Division

March 2004

Financial Reporting Bulletin

It is important that you read this bulletin and the attached materials before submitting your Thrift Financial Report.

February COF Revised Deadline — Friday, March 26
March 2004 TFR Deadline — Friday, April 30
HC and CMR Deadline — Monday, May 17

IN THIS ISSUE

The Office of Thrift Supervision publishes the Financial Reporting Bulletin quarterly and distributes it to all OTS regulated institutions. The bulletin's purpose is to provide the Thrift Financial Report preparer with reporting information and guidelines. Please send comments and suggestions on this bulletin to Office of Thrift Supervision, 1700 G Street, NW, Washington, DC 20552 or by e-mail to tfr.instructions@ots.treas.gov.

FIRST QUARTER DEADLINES

You should complete and transmit your March 2004 TFR, as soon as possible after the close of the quarter. All schedules except HC and CMR are due no later than **Friday, April 30, 2004**. Schedules HC and CMR are due no later than Monday, May 17, 2004.

Due to the changes in our internal systems to incorporate the March 2004 TFR, we are requesting that all institutions file their February COF no later than March 26 (instead of March 30).

Institutions that are exempt from filing Schedule CMR but choose to voluntarily file must adhere to the filing deadlines. OTS will not be able to provide Interest Rate Risk reports to institutions that fail to meet the filing deadline. All voluntary filers should contact Doris Jackson at 972-277-9618 or doris.jackson@ots.treas.gov two days after transmitting CMR to confirm that it was received.

If you have any questions concerning the preparation of your report, please call your Financial Reporting Division contact in Dallas, Texas. You may email reporting questions to tfr.instructions @ots.treas.gov. If you have a problem with the electronic filing software or transmission, call 1-866-314-1744 or efs-info@ots.treas.gov. If you have any questions about your Interest Rate Risk report, you may contact Scott Ciardi at 202-906-6960 or scott.ciardi@ots.treas.gov.

INTERNET-BASED REPORT FILING

OTS has developed an Internet-based system for filing regulatory financial reports called EFS-NET. The March 2004 release of EFS (version 5.0.) will provide the ability for Internet transmission of your regulatory reports. This process utilizes the institution's existing Internet connection, and ultimately is intended to replace dial-up modem requirements in our software.

The Financial Reports Subscriber (FRS), the system for downloading UTPRs, will continue to require dial-up connection at this time. FRS is scheduled for implementation in EFS-NET within the year. Until then, continue to follow the current procedure for downloading your UTPR's.

We are in the process of obtaining Certification and Accreditation (C&A) for the security aspects of the new EFS-NET architecture. The C&A is your assurance that due diligence has been performed to maintain the security and privacy of your data. We expect to have the C&A completed and EFS-NET operational for the March 2004 report filings. Until we have completed the C&A analysis, you will receive a message that the system is not available if you attempt to use EFS-NET to transmit your data. We will notify you when EFS-NET is available. Please check for a download bulletin announcement before transmitting your TFR.

MARCH 2004 FILING SOFTWARE

The filing software for March 2004, EFS version 5.0, will be mailed to all institutions on March 26, 2004. You should receive it during the week of March 29, 2004. Because of the need to update our internal systems for the March 2004 report changes, **we will not accept any transmissions after the close of business March 26, 2004 and during the week of March 29, 2004.** Beginning April 5, 2004 we will only accept transmissions using EFS Version 5.0. If you have not received the software by this time, contact Doris Jackson at 972-277-9618.

We will send all institutions a separate package containing detailed information about EFS Version 5.0 on March 19, 2004. This package will include instructions for, and the current status of, EFS-NET and important information concerning changes to the software. Please keep this information with your TFR Report Instructions for reference. If you have any questions about the information contained in this package, contact Jacquie White at 202-906-6464.

SOFTWARE CORNER

Install the March 2004 Electronic Filing System (EFS) CD, Version 5.0, as soon as you receive it. This version is a full and complete installation. Instructions concerning the March 2004 EFS CD will be mailed with the CD.

To download your UTPR reports, you must also install Financial Reports Subscriber (FRS) from the March 2004 installation CD. Enter your five-digit docket number and copy and paste your PIN number from your EFS application (in Transmission Configurations) into the FRS Configuration Setup.

OTS provides **one copy** of the EFS filing software installation CD to each OTS-regulated institution. We recommend that you keep your current EFS software installation CD in a secure, easily accessible location after you've installed it.

Always access EFS (or FRS) from your desktop through Start, Programs, Office of Thrift Supervision, OTS Electronic Filing System (or Financial Reports Subscriber), rather than from a desktop shortcut. Manually created desktop shortcuts created by users are not guaranteed to be configured correctly and can lead to application problems.

Review and update all information under Institution Setup before you begin working on your report(s). Your information is transmitted to the OTS with your reports and should be kept current. OTS uses this information for all mailings and e-mail notifications.

Minimize data loss issues by using the Backup/Restore option in EFS after every data entry or editing session and after every successful transmission.

For EFS/FRS assistance, contact the 24-hour toll-free Helpline at 866.314.1744 or e-mail efs-info@ots.treas.gov. All calls and e-mails are returned in the order they are received.

Minimize response time to your request for assistance on any communication with OTS - mail, e-mail, voice mail, or fax - please identify yourself. Always provide your name, docket number, institution name, and phone number. In voice mail, speak slowly enough to be clearly understood, and spell any unusual names.

MARCH 2004 TFR INSTRUCTION MANUAL

A new TFR Instruction Manual, binder, and tabs are included with this Financial Reporting Bulletin. The manual has been revised to include the new and changed line items for 2004. Because the changes are quite extensive, we have not marked the changes with a bar in the margin. A listing of the new lines and a mapping to the lines in the 2003 TFR are available on the OTS web site.

GENERAL VALUATION ALLOWANCES

In the 2004 TFR we have eliminated the lines in Schedule SC for general valuation allowances for investment securities, real estate held for investment, and equity investments not subject to FASB Statement No. 115. Typically general valuation allowances for these assets are rare. You should now deduct these amounts directly against the assets to which they apply. In Schedule VA your beginning balance on VA105 should equal the sum of the amounts reported in December 2003 on SC227 (mortgage pool securities), SC283 (mortgage loans), SC357 (nonmortgage loans), SC441 (repossessed assets), and SC690 (other assets). Note that if in December 2003 you reported an amount on the lines that have been eliminated, your beginning balance in Schedule VA (VA105) for March 2004 will not equal your December 2003 ending balance. In this case, you should submit a Usernote explaining that the difference equals the amounts reported in December 2003 for the eliminated general valuation allowances.

Questions & Answers

We post TFR Questions and Answers on the OTS web site at www.ots.treas.gov/tfrqanda.html. If you have a question that you would like posted, please submit it to tfr.instructions@ots.treas.gov.

Q&A No. 029 (Revised)

SUBJECT: RECONCILING TOTAL ASSETS (SC60) TO ASSETS TO RISKWEIGHT (CCR64)
LINE(S): CCR64
DATE: Revised March 1, 2004

Question: How can we reconcile total assets reported on Schedule SC to assets to risk-weight on Schedule CCR?

Answer: As follows:

Reconciliation of Total Assets to Assets to Risk-Weight

	Schedule CCR Reference
Total assets (SC60)	CCR205
Deduct:	
Assets of "nonincludable" subsidiaries	CCR260
Goodwill and certain other intangible assets	CCR265
Disallowed servicing assets, disallowed deferred tax assets, disallowed residual interests, and other disallowed assets	CCR270
Other	CCR275
Add:	
Accumulated losses (gains) on certain available-for-sale securities and cash flow hedges	CCR280
Qualifying intangible assets	CCR285
Other	CCR290
Equals: Adjusted total assets	CCR25
Deduct:	
Equity investments and other assets required to be deducted	CCR370
Deduction for low-level recourse and residual interests	CCR375
Add:	
Unrealized gains on available-for-sale equity securities	[A]
Allowance for loan and lease losses (ALLL)	[B]
Assets risk-weighted at 200% under ratings-based approach	[C]
Off-balance-sheet assets required to be risk-weighted	[D]
Equals: Assets to risk-weight	CCR64

[A] Include here any pretax unrealized gains net of losses included in assets on SC60, where any portion, up to 45 percent, of those gains are reported on CCR302.

[B] Include here the ALLL reported on SC283 and SC357, combined, and, therefore, reflected in SC60. However, this amount is not necessarily the same amount reported on CCR350.

[C] Include here the amount of assets included in SC60 that are also reported on CCR501 after being multiplied by a factor of 2.

[D] Include here off-balance-sheet assets to risk-weight not included in SC60.

Q&A No. 230

SUBJECT: TFR POSTING SCHEDULE ON FDIC WEB SITE
LINE(S): N/A
DATE: March 1, 2004

Question: What is the estimated turnaround time between the date of submission of the TFR and when it is posted on the FDIC website?

Answer: The first TFRs are posted on the FDIC web site the Friday following the tenth day after the due date (40th days after the report date). TFRs must pass all OTS Preliminary Edits prior to posting. The data is updated every week, and new TFRs passing all preliminary edits are added. TFRs for the prior quarter are updated twice in the quarter, approximately 125 and 150 days after its report date. A final TFR is last updated approximately 150 days after its report date.

Q&A No. 231

SUBJECT: SALLIE MAE PASS-THROUGH SECURITIES
LINE(S): SC182
DATE: March 1, 2004

Question: We have two types of Sallie Mae investments. One type is a Sallie Mae corporate bond, which, as a nonmortgage debt instrument, clearly would be reported on SC130, U.S. Government, Agency, and Sponsored Enterprise Securities. The other type is a Sallie Mae pass-through security, collateralized by the underlying student loans. Since this second type is not actually a debt instrument, would we report the investment on SC182, Securities Backed by Nonmortgage Loans?

Answer: Yes. Report Sallie Mae pass-through securities on SC182, Securities Backed by Nonmortgage Loans, which is a new line in 2004. In Schedule CMR Sallie Mae pass through securities should be reported as nonmortgage loans and in Supplemental Reporting using code 182, Education Loans.

Q&A No. 232

SUBJECT: FLEXIBLE SPENDING ACCOUNTS
LINE(S): SC712
DATE: March 1, 2004

Question: Our bank is offering a flexible spending account (FSA) in the Medical portion of its benefits plan. These funds will be held in a general ledger account. As the administrator disburses funds for the FSA reimbursements, we will transfer amounts to cover them to the internal checking account that is being utilized by the administrator. Prior to transfer to the checking account, we hold the funds withheld from the employee, which will eventually be paid to the administrator. Where should we report these on the TFR?

Answer: The funds withheld from employees for flexible spending accounts should be reported with other employee withholdings in Escrows on SC712.

Q&A No. 233

SUBJECT: FHLB ADVANCE PREPAYMENT PENALTIES
LINE(S): SC720, SO230, and SO580
DATE: March 1, 2004

Question: *How should we report prepayment penalties on FHLB advances? Should we always report these penalties as an expense? Are there any circumstances under which we should capitalize the penalties and amortize them as a yield adjustment?*

Answer: Generally, prepayment penalties will be expensed as part of the cost of extinguishing the original FHLB advance. This is true even when there is an exchange of one advance for another if the new terms are *substantially different* from those of the original advance. In some limited circumstances, the penalty may be deferred and amortized if the modification of terms is relatively minor, although this is less common.

In the reporting of FHLB advance prepayment penalties, an institution must follow GAAP, including EITF Issue No. 96-19, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*. Under this consensus, the accounting treatment for prepayment penalties in the situation where a new advance replaces an existing advance depends on whether the change is considered a:

1. **Prepayment of a FHLB Advance (Exchange of Debt):**
   - **DESCRIPTION**: A more substantive change that is viewed for accounting purposes as the extinguishment of the existing debt and the creation of new debt.
   - **ACCOUNTING:** The penalty is immediately expensed as a cost of the extinguishment of the original FHLB advance.
   - **TFR REPORTING:** The penalty should be taken as an immediate charge to SO580, Other Noninterest Expense.

   -or-

2. **Modification of an existing FHLB Advance:**
   - **DESCRIPTION:** A *minor* modification to the existing debt.
   - **ACCOUNTING:** The penalty is deferred and treated as a yield adjustment to be recognized over the remaining life of the modified advance.
   - **TFR REPORTING:**
     - Schedule SC – The unamortized deferred penalty is netted against the par amount of the advance and reported in SC720, *Borrowings: Advances from FHLBank*.
     - Schedule SO – The penalty should be amortized using the level yield method over the remaining term of the replacement advance by periodic charges to SO230, *Interest Expense: Advances from FHLBank*.

A new advance is considered substantially different from the original advance if the present value of the cash flows under the terms of the new advance is at least ***10 percent*** different from the present value of the remaining cash flows under the terms of the original advance. The discount rate to be used to calculate the present value of the cash flows for both the new and original advance is the effective interest rate, for accounting purposes, of the original advance. EITF 96-19 gives additional guidance to be used in the present value calculations for purposes of applying the 10 percent test.

Thus, if the difference in the present value of the new and original advance is 10 percent or more, the transaction is viewed as the extinguishment of the original advance with the prepayment penalty included in determining the loss on extinguishment (i.e., immediate charge). If the difference in present values is less than 10 percent, the penalty is amortized as an adjustment of interest expense over the remaining term of the replacement or modified advance.

The above Q&A summarizes the accounting for FHLB prepayment penalties. We recommend you fully review the GAAP literature (including EITF 96-19) and consult with your external auditors. Your OTS Regional Accountant may also be contacted for additional assistance.

Q&A No. 234

SUBJECT: INTERNET DEPOSIT LISTINGS – BROKERED DEPOSITS
LINE(S): DI100
DATE: March 1, 2004

Question: A company operates a website at which our institution posts interest rates on CDs. In order to post our rates, we must pay a subscription fee. Are deposits obtained through this web site brokered deposits?

Answer: A paid posting on an Internet website is equivalent to a paid advertisement in a newspaper. Whether the Internet company should be classified as a *deposit broker* depends upon (1) whether the company provides assistance to the depositor in placing the deposit or communicating with the depository institution; or (2) whether the company charges a fee based upon the number or volume of deposits placed at the depository institution.

A listing service is **not** a *deposit broker* if the following requirements are satisfied:

1. The person or entity providing the listing service is compensated solely by means of subscription fees (*i.e.,* the fees paid by subscribers as payment for their opportunity to see the rates gathered by the listing service) and/or listing fees (*i.e.,* the fees paid by depository institutions as payment for their opportunity to list or post their rates). Further, the listing service does not require a depository institution to pay for other services offered by the listing service or its affiliates as a condition precedent to being listed.
2. The fees paid by depository institutions are flat fees; they are not calculated on the basis of the number or dollar amount of deposits accepted by the depository institution as a result of the listing or posting of the depository institution's rates.
3. In exchange for these fees, the listing service performs no service except the gathering and transmission of information concerning the availability of deposits. This information may include an insured depository institution's name, address (including e-mail address), telephone number and interest rates. Except for providing this information, the listing service does not serve as a liaison between depositors and depository institutions. For example, the listing service does not pass information about a depositor (or potential depositor) to a depository institution.
4. The listing service is not involved in placing deposits or confirming the placement of deposits. Any funds to be invested in deposit accounts are remitted directly by the depositor to the insured depository institution and not, directly or indirectly, by or through the listing service.

Q&A No. 235

SUBJECT: LIABILITIES FOR CREDIT LOSSES FOR OFF-BALANCE-SHEET EXPOSURES
LINE(S): Schedule CCR
DATE: March 1, 2004

Question: On Schedule SC, we report a liability of $70,000 (on line SC796) for credit losses associated with off-balance-sheet exposures. It is comprised of $50,000 associated with letters of credit and $20,000 associated with sales of loans with recourse. May some of the $70,000 potentially be included in Tier 2 capital, as part of the allowance for loan and lease losses (ALLL) reported on CCR350?

Answer: Yes. For Tier 2 capital purposes, you may potentially report ALLL on CCR350 up to $50,000 – the amount associated with letters of credit. You may not include any portion of the liability related to transfers of loans or other assets reported as sales with recourse. In addition, the amount you ultimately report on CCR350 is limited to 1.25% of gross risk-weighted assets.

Q&A No. 236

SUBJECT: EXCESS ALLL
LINE(S): Schedule CCR
DATE: March 1, 2004

Question: On Schedule SC, our allowance for loan and lease losses (ALLL) of $150,000 is comprised of $100,000 associated with mortgage and nonmortgage loans on SC283 and SC357 and $50,000 associated with letters of credit on SC796. However we include only $90,000 of the total ALLL in Tier 2 capital on SC350, as this amount represents 1.25% of our risk-weighted assets reported on CCR75. Therefore may we reduce our risk-weighted assets by $60,000 ($150,000 less $90,000) by reporting this amount as excess ALLL on CCR530?

Answer: No. You may report excess ALLL on CCR530 of only $10,000 ($100,000 less $90,000). Excess ALLL may include only those amounts appropriately reported as contra-assets on SC283 and SC357. Therefore, CCR530 may not include an amount reported as a liability on SC796. You have excess ALLL to report on CCR530 only if the amounts on SC283 and SC357, combined, exceed the amount reported on CCR350.

In addition to the facts you provided, assume the following: Tier 1 capital of $800,000 and subtotal risk-weighted assets of $7,200,000. The table below shows the relevant computations.

First, you compute includable ALLL of $90,000 ($7,200,000 times 1.25%). Second, you compute total risk-based capital of $890,000 ($800,000 plus $90,000). Third, you compute excess ALLL of $10,000 ($100,000 less $90,000). Note that includable ALLL of $90,000 is less than the $100,000 of ALLL associated with loans; that is, the ALLL reported as contra-assets. Fourth, you compute risk-weighted assets total of $7,190,000 ($7,200,000 less $10,000).

	Dollars in Thousands		
Tier 1 capital		$ 800	
Risk-weighted assets, subtotal	$ 7,200		$ 7,200
ALLL, percent limit	1.25%		
ALLL, includable	90	90	
ALLL, excess	10		(10)
ALLL, in assets	100		
ALLL, in liabilities	50		
ALLL, total	$ 150		
Total risk-based capital		$ 890	
Risk-weighted assets, total			$ 7,190

Q&A No. 237

SUBJECT: BOLI INVESTMENT LIMITATION, DEFINITION OF TOTAL CAPITAL
LINE(S): CCR39, SC615, and SC625
DATE: March 1, 2004

Question: OTS Regulatory Bulletin 32-26 states that savings associations may not invest more than 25 percent of their *total capital* in bank-owned life insurance (BOLI). Is *total capital* the same as Total Risk-based Capital?

Answer: Yes. *Total capital* is the same as Total Risk-based Capital. Use the amount that you report on Schedule CCR39, Total Risk-based Capital. Follow the TFR Instructions for Schedule CCR to calculate the amount on CCR39, which (as indicated in the instructions) is net of any deductions you make on Lines CCR370 and CCR375.

In summary:

	Tier 1 (Core) Capital	*(following the instructions for CCR20)*
+	Allowable Tier 2 (Supplementary) Capital	*(following the instructions for CCR35)*
-	Equity Investments and Other Assets Required to be Deducted	*(following the instructions for CCR370)*
-	Deduction for Low-Level Recourse and Residual Interests	*(following the instructions for CCR375)*
=	Total Capital = Total Risk-based Capital	

Q&A No. 238

SUBJECT: RISK-WEIGHTING AVAILABLE-FOR-SALE EQUITY SECURITIES WITH UNREALIZED LOSSES
LINE(S): CCR506
DATE: March 1, 2004

Question: On SC860 we report net unrealized losses (after deducting unrealized gains and adjusting for taxes) on available-for-sale equity securities. How should we risk-weight these securities, since we cannot add back the net loss on CCR180 or CCR302?

Answer: If these equity securities are permissible for savings associations and therefore qualify to be risk-weighted at 100%, report on CCR506 the fair value (rather than the cost) of these securities.

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The Financial Reporting Division uses voice mail extensively. If you reach the voice mail of the person you are calling, please leave a brief message, speaking slowly enough to be clearly understood. Include your name, phone number, region, and docket number. Your call will be returned as quickly as possible.

TFR REPORTING QUESTIONS AND ANSWERS

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INTEREST RATE RISK REPORTS

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COPIES OF TFR MANUAL

OTS provides one free copy of the TFR Instruction Manual and Financial Reporting Bulletins to report preparers of all OTS-regulated institutions. You can also access the manual and bulletins on the OTS web site at http://www.ots.treas.gov/tfrpage.html.

Office of Thrift Supervision
Filing Schedule for 2004 Regulatory Reports

Reporting "As Of" Date	Filing Deadline			
	Thrift Financial Report	Schedules HC and CMR	Cost of Funds	Branch Office Survey
2004 January 31			Monday March 1	
February 29			Tuesday March 30	
March 31	Friday April 30	Monday May 17	Friday April 30	
April 30			Tuesday June 1	
May 31			Wednesday June 30	
June 30	Friday July 30	Monday August 16	Friday July 30	Monday August 30
July 31			Monday August 30	
August 31			Thursday September 30	
September 30	Monday November 1	Monday November 15	Monday November 1	
October 31			Tuesday November 30	
November 30			Thursday December 30	
December 31	Monday January 31, 2005	Monday February 14, 2005	Monday January 31, 2005	